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SIPDIS

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ENERGY FOR D. PUMPHREY AND A. LOCKWOOD

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SUBJECT: PDVSA POWER STRUGGLES: THE REVOLUTION DEVOURS ITS CHILDREN

REF: A. 03 CARACAS 4379

[1](#)B. CARACAS 101

Classified By: CDA STEPHEN G. MCFARLAND; REASONS 1.4 (B) and (D)

SUMMARY

[1](#)1. (C) With street battles between opposing labor groups, mass protests to force the removal of managers, new allegations of corruption in internal product sales, and rumors of yet another new Petroleos de Venezuela (PDVSA) board, January has demonstrated yet again the disarray in the Venezuelan energy sector. Rumors that Ali Rodriguez will leave the presidency of PDVSA or be replaced are also spiking once again. Vice Minister for Hydrocarbons Luis Vierma, who has been seen as an advocate for more involvement by private sector firms, is also now the subject of rumors that he will be dismissed. End Summary.

THE REVOLUTION IN THE STREETS

[1](#)2. (U) After a holiday calm, evidence of the battles that continue to rage within Petroleos de Venezuela (PDVSA), between PDVSA and the rest of the government, and in the Venezuelan energy sector in general have once again erupted into public view in January. Violence broke out in western Venezuela the week of January 19 as workers fighting over jobs and control of PDVSA's Cabimas plant began shooting at each other. Five people were wounded as workers from the "Bolivarian Workers Front" clashed with those from the "Che Guevara Trade Union of Unemployed Workers." In eastern Venezuela, the situation was less violent but still tense as protestors massed outside PDVSA's Maturin offices to demand the removal of regional managers who had allegedly participated in the December 2002-February 2003 general strike. The entire PDVSA Board traveled to Puerto La Cruz to discuss this incident that was apparently resolved on January 21 with the appointment of a new district manager.

[1](#)3. (C) These two incidents appear more bizarre when one realizes that, in the case of Cabimas, the violence was between two pro-Chavez unions squabbling over control of the jobs in a PDVSA facility, while in Maturin the protestors were actually led by a member of the PDVSA Board, himself a union leader. More seriously, a U.S. executive reported to econoff on January 22 that the PDVSA manager who was removed had worked well with international companies. He added that another senior eastern area manager, with whom his company has worked most effectively since the strike, was also targeted by the protestors. So far, this manager has been protected but he may yet be removed.

THE REVOLUTION FIRES ITS OWN

[1](#)4. (C) In yet another bizarre episode, Fabian Chacon, a Chavez loyalist who lasted as a legal counsel in PDVSA for ten months between February and November 2003 when he was reportedly fired by PDVSA President Ali Rodriguez, went public the week of January 26 with charges that PDVSA has lost millions of dollars by selling products at low domestic market prices to firms that then re-sold the products abroad at international prices. Although such allegations should not come as a surprise to any observer of the chaos of the current Venezuelan energy scene, they have spurred PDVSA, the Ministry of Energy and Mines, and the National Assembly into saying they will investigate irregularities in the sales of crude and oil products. Chacon himself has been accused of trying to funnel the legal business associated with the severance claims of ex-PDVSA employees to lawyer friends. (Note: Stories of corruption in PDVSA's international marketing are rife. The former commercial manager of PDVSA told econoff January 20 that he has received material from within the company that could send people to jail. The only new thing here is the allegation of corruption in the

internal market which would be very much in the trend

described in reftel A. End note.)

YET ANOTHER PDVSA BOARD?

15. (C) VenEconomy, a respected local consulting service, published a story in its newsletter on January 29 stating that Chacon's allegations "are thought to be part of a campaign to unseat Ali Rodriguez" and other members of his Patria Para Todos (PPT) Party from PDVSA. This follows public announcements by Rodriguez and Energy Minister Ramirez that President Chavez will soon announce yet another restructuring of the industry and yet another board of directors. The press reports that the PDVSA Board will be expanded to eleven from its current eight members. Representatives from the Finance, Production and Commerce, and Planning Ministries will reportedly be added to the board to give the government more control over the company. There is also speculation that the military will become more overtly involved in the running of the company.

16. (C) The ever fertile Caracas rumor mill is once again seething with rumors that Ali Rodriguez himself is on the way out. A staffer of the Permanent Energy Commission of the National Assembly informed econoff on January 15 that he believes Rodriguez and other PPT party members will pull out of the Chavez government when they think it will go down so as not to be associated with a failure. This source, who claims to know Rodriguez well from his time in the National Assembly, believes Rodriguez will ultimately be more interested in advancing his own political career than in setting Venezuelan energy policy. ChevronTexaco de Venezuela President Ali Moshiri commented to econoff on January 22 that Rodriguez is indeed less "hands on" than he had been a year ago. Moshiri noted that everything to do with crude trading and lifting has been turned over to Senior VP Aires Barreto. Another oil company source, however, commented to econoff on January 29 that ultimately Rodriguez's most effective advocate with Chavez is Fidel Castro. According to this source, Castro depends on Ali Rodriguez to keep the oil flowing to Cuba.

17. (C) Some of the candidates rumored to be in line to fill Rodriguez's shoes include Energy and Mines Minister Rafael Ramirez; General Francisco Rangel Gomez, currently President of the state-owned Corporacion Venezuelano de Guyana (CVG); CITGO President Luis Marin; and Gustavo Perez Issa, the controversial former PDVSA internal security manager. Rumored candidates for new board members include Carlos Mendoza Potela, formerly Venezuelan Ambassador to Saudi Arabia and a member of the controversial Gaston Parra PDVSA Board in 2002; and Alfredo Rivera, currently a CITGO VP and said to be leading the charge to move the company from Tulsa to Houston because he would prefer to live in Houston. One particularly cynical industry source commented to econoff that those now in control of PDVSA know they are "on the way out" and are fighting to get onto the board because of the excellent pension benefits they would receive.

18. (C) And Rodriguez is not the only person whose imminent departure is rumored. Vice Minister for Hydrocarbons Luis Vierma, who has other important positions in PDVSA, is also said to be on shaky ground because of his support for more involvement by private firms in Venezuela's energy sector.

COMMENT

19. (C) PDVSA continues to be an almost dysfunctional organization with different groups struggling for power, jobs, control of its budget, and, of course, opportunities to make money. But a larger struggle may be looming in the Chavez government between the nationalists and those who support giving more operational freedom to the private sector. This kind of managerial disarray only strenghtens our suspicions (reftel B) that the firm's production is likely to drift downward in 2004.
MCFARLAND

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